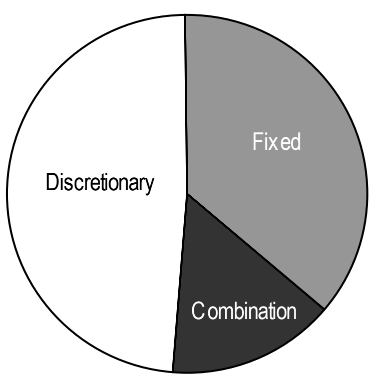
OSA Newsletter

Fall 2003 **Editor: Bob Baker**

Missing Match

Fifteen large companies have quit offering a matching contribution to their 401(k) plans since the last quarter of 2001, according to the *Center for Retirement Research* at Boston College. It turns out that only 36% of corporate DC plans have fixed matches, and 15% are a combination of fixed and discretionary. That leaves 49% of corporate DC plans whose contributions are purely discretionary. Among those firms dropping their match are the Big Three auto manufacturers, Goodyear, Delphi Automotive Systems, Charles Schwab & Co., and Prudential Securities.

401(k) Corporate Match



Five in a Row

Since 2000, health care costs for employer-sponsored health care plans have risen at double-digit rates. The projections for 2004 appear similarly large, according to the *Aon Spring 2003 Health Care Trend Survey*. HMO premiums are expected to increase 16.4%, point of service plans can expect a 16.1% increase, PPOs are expected to jump 15.7%, and indemnity plans should increase 17.2%. Reasons for the increases are familiar: increased demand for services from an increasingly aging population, lessening of tight managed care controls, increased technology costs, and higher priced prescription drugs. Increased co-pays and premiums for employees are to be expected.

Borrow to Invest

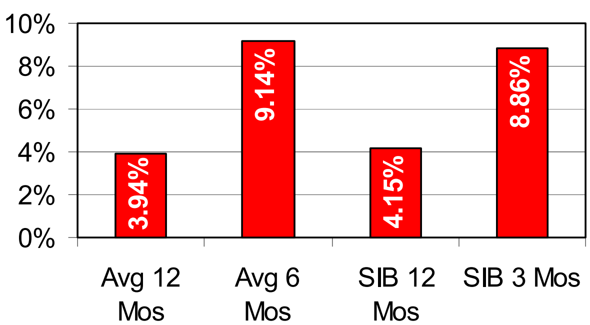
While borrowing to invest may describe the strategy of many individual investors this last business cycle, it is also the essence of using *Pension Obligation Bonds*. Several states with large unfunded liabilities in their public pension plans have opted to engage in a bit of “risk arbitrage” – issuing low-risk taxable pension bonds and using the proceeds to invest in higher-yielding equities, high-yield debt, or highly leveraged portfolios. This strategy is successful so long as the return on the ensuing investments (less taxes) exceeds the interest rate on the bonds. Recently Illinois issued $10 billion in bonds to help pay down $36 billion in unfunded liability.

In 1997, New Jersey issued $2.8 billion in bonds, and in 1998 the city of Pittsburgh issued $256 million in bonds. This strategy may work for Illinois because of market timing, but because of the poor investment returns of the last several years, it has proved very costly for New Jersey and the City of Pittsburgh. Articles in the June 2003 issue of Government Finance Review, the September 2003 issue of Governing magazine, and the October 12 edition of the New York Times cover the topic of Pension Obligation Bonds.

Returns Returning

Pension funds across the nation returned to positive territory for the year ending June 30, 2003 after two years of negative returns. The *Wilshire Associates' Trust Universe Comparison Service* reported that the median public fund returned 3.94%. The six-month returns were better still, reporting and average return of 9.14%. Provisional investment performance reports from the Washington State Investment Board were comparable with an annual return of 4.15% and the most recent quarter reporting a return of 8.86%.

**Return on Pension Fund Assets
Year Ending June 30, 2003**



Retirement Is...

Fewer than 3 in 10 people believe they will *not work for pay at all* when they finally retire. In the meanwhile nearly 7 out of 10 believe they will either work in some capacity or never retire at all. These are just some of the findings of the American Association of Retired Persons (AARP) Working in Retirement Study released earlier this year. This study was based on a survey of 2,001 individuals between the ages of 50 and 70 years old who were employed full or part-time. The survey attempted to capture respondents' vision of retirement, what kinds of jobs future retirees want to hold, and the kinds of jobs held by current retirees. For a complete copy of this report, visit http://research.aarp.org.